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TeliaSonera AB

1. SYNOPSIS

TeliaSonera was formed in 2002 from the merging of Telia and Sonera. It is the largest telecommunications company in the Nordic and Baltic regions and offers services within mobile communications, Internet, data communications and fixed telephony. It is the largest mobile and fixed network operator in Sweden and Finland, the second largest in Norway, and the fourth largest in Denmark. It also has a strong position in Estonia, Latvia and Lithuania through partnerships in leading mobile operators, and is a partner in mobile operators in Russia, Turkey, Azerbaijan, Georgia, Kazakhstan and Moldova.

2. COMPANY INFORMATION

Exhibit 1 – Telia at a glance

Shareholders	Swedish government	46%
	Finnish government	19.36%
	Public	34.74%
CEO	Anders Igel	
Year established	2002	
Revenue 2002	€8.81 billion	
Headquarters	Farsta, Sweden	
Employees Dec 2002	17,300	

(Source: Paul Budde Communication based on company data)

TeliaSonera is the largest provider of mobile and fixed network-based voice and data communications services in Sweden and Finland and has a significant market position in Denmark. TeliaSonera also has a strong position in the Baltic countries through partnerships in leading fixed network operators in Estonia, Latvia and Lithuania. TeliaSonera also offers international carrier services in its own high-capacity network. TeliaSonera has a strong position on the carrier market in Europe and is the market leader in the Nordic and Baltic regions.

TeliaSonera was formed in December 2002 from the merging of Sweden's Telia and Finland's Sonera, and is listed on Stockholmsbörsen, Helsinki Exchanges and Nasdaq.

2.1 YEAR 2002 RESULTS

Revenue for the combined company was constant at €8.1 billion. EBITDA increased 17% to €2.77 billion. With the costs associated with restructuring, the net profit fell from €0.57 billion in 2001 to €3.58 billion. The restructuring costs were mainly associated with fixing Sonera's international 3G initiatives and services business and Telia's international carrier services and fixed network operations in Denmark.

The company reported its annual results for the separate companies as the merger only became effective in the last month of the year. For some reason, these accounts were stated in Swedish Krona.

2.1.1 Telia

Sales were constant at SEK57.1 billion, but increased 5% after divested businesses are taken into account. Strong growth was experienced within Mobile, Internet Services and International Carrier. Sales of fixed telephony dropped due to the introduction of local carrier preselection in Sweden and weak growth in the market overall.

Revenue highlights were:

- mobile sales in Sweden increased 5%, largely due to reduced interconnect fees;
- mobile sales rose 28% in Norway and 44% in Finland due to increased subscribers;
- Internet Services sales increased 27% on higher average price levels and continued strong demand for broadband access. Internet access increased 33%, with most of the increase in broadband;
- Cable TV sales increased 17% due to higher prices;
- Telia Networks external sales fell 7% on declining revenues for end-customer operations in Sweden;
- international carrier sales increased 20% across all product areas. Capacity increased 13%, Internet Protocol (IP) grew 67%, and voice sales increased 17%.

Volume growth combined with profit improvement measures led to a 30% improvement in underlying EBITDA. A write-down of SEK536 million was taken due to revaluation of the Finnish mobile operations, together with restructuring costs of SEK201 million, including provisions for redundant personnel.

Income from associated companies decreased mainly due to start-up costs from newly established operations in MegaFon.

The international carrier market was uncertain, and a decision was made to change the strategic focus of Telia International Carrier. This entailed writing down the book asset value by SEK6.3 billion.

2.1.2 Sonera

Revenue grew 1% to SEK20.5 billion due to the acquisition of Fintur. After ignoring Fintur and divested businesses, sales increased 6%. EBITDA improved 41% to SEK7.3 billion, mainly due to profit improvement actions in Service Businesses and the acquisition of Fintur.

Revenue highlights were:

- Mobile sales in Finland increased 1% to SEK11.3 billion due to increased subscribers and revised sharing of mobile-originated international call revenues between Mobile Communications Finland and Sonera Telecom. This was partly offset by lower Short Message Service (SMS) prices, high overall penetration and the strategic goal to concentrate on profitable business;
- Sonera Telecom sales declined 4% to SEK9.1 billion, mainly due to the sale of Primatel and the Gateway leasing business during 2002. On a comparable basis, net sales increased 5%.

Sonera consolidated Fintur for only four months. On a pro forma basis for the full year, Fintur recorded net sales of US\$240 million.

The operating loss was SEK34.3 billion compared with a profit of SEK6.9 billion in 2001, primarily due to non-cash write-downs for:

- revaluation of Group 3G;
- SEK5.5 billion mainly relating to Ipse 2000, Xfera, Juniper Financial Corporation and 724 Solutions;
- SEK560 million for restructuring.

Operating income in 2002 also includes capital gains of SEK3.6 billion mainly relating to the sales of Pannon, Sonera Info Communications, Primatel and Libancell.

Income from Turkcell was SEK64 million compared with a loss of SEK565 million in 2001 due to subscriber growth and improved foreign exchange. Income from other GSM associated companies decreased 24% to SEK394 million, primarily due to the sale of Pannon.

Table 1 – Historical revenue – 1997 - 2001

Year ends Dec	Telia (SEK billion)	Sonera (€ billion)
1997	45.67	1.35
1998	49.57	1.62

1999	52.12	1.85
2000	54.06	2.06
2001	57.20	2.19

(Source: Paul Budde Communication based on company data)

Table 2 – Combined revenue for years ending December – 2001 - 2002

Year ends Dec.	TeliaSonera (€ billion)
2001*	8.80
2002	8.81

(Source: Paul Budde Communication based on company data)

Note: *proforma

Table 3 – Revenue by segment – 2002

Segment	Proportion	Annual change
Mobile communications	32%	+23%
Fixed telephony	42%	+1%
Internet	5%	+27%
Network capacity	8%	n/c
Data communications	3%	+1%
Cable TV	3%	+32%
Service, installation	2%	-35%
Customer equipment	2%	-58%
Other	3%	+5%

(Source: Paul Budde Communication, based on company data)

Table 4 – Revenue by region – 2002

Region	Proportion	Annual change
Sweden	71%	-5%
European Union	14%	+30%
European Economic Area	10%	+24%
Rest of Europe	2%	+155%
North America	1%	+7%
Rest of world	1%	+48%

(Source: Paul Budde Communication, based on company data)

3. THE TELIA/SONERA MERGER

The Swedish and Finnish incumbents, Telia and Sonera, announced in March 2002 that they would merge to become the Nordic region's largest operator and Europe's first merger of national incumbents. The combined entity would create the largest telecommunications group in the Nordic and Baltic regions with combined revenues of about €9 billion, 34,000 employees, 15 million mobile and 1.2 million fixed-line subscribers. Both governments supported the merger, and each was also a majority shareholder in both companies: 70% of Telia and 53% of Sonera.

The merger was completed in December 2002. The merged company hoped to achieve:

- strategic fit;
- larger customer base in the Nordic region and strong market leadership;
- consolidation of Baltic positions;
- strengthened position in growth areas and businesses, such as Russia, Turkey, Eurasia and International Carrier;
- significant synergies;
- strong financial resources and cash flow;
- footprint and customer base to attract the best partners.

A full analysis of the merger, written just before its completion, is given in both of the archived reports: [Telia AB \(historic\)](#) and [Sonera Corporation \(historic\)](#) (see separate reports). These profiles also contain a description of the companies' activities up until the merger.

3.1 THE MERGER PROPOSAL

Telia offered to buy Sonera in an all-share deal, worth €7.4 billion, representing a 16% premium on Sonera's share value in March 2002. By mid-2002, when the EU gave its approval to the deal, subsequent share market changes meant the deal was worth €4.6 billion and at a premium of 6% for Sonera. By the time of the October 2002 prospectus for the merged company, this value had fallen even further.

The merger was accomplished by means of a share swap, with Sonera shareholders receiving a 16% premium, with the original Telia shareholders holding 64% of the combined company. The new company is based in Stockholm, retains its listing in Stockholm and sought secondary listings in Helsinki and New York.

The merged company, named TeliaSonera, retained the brand names Telia in Sweden and Denmark, Sonera in Finland and NetCom in Norway.

3.2 THE MERGING COMPANIES

3.2.1 Telia AB

In July 1993, the Swedish incumbent telecommunications operator Televerket became Telia AB. By 2001, Telia was the leading operator in Sweden and the Nordic region. As the incumbent, Telia owned and operated most of Sweden's fixed infrastructure.

The company's operations were concentrated in the Nordic countries and the Baltics, though operations extended to thirty different nations. Activities were primarily in fixed and mobile telephony, with increasing focus on data and international carrier networks. Telia's key growth areas were in mobile services, network wholesale and international carrier services, as well as increasing demand in Internet services.

In January 1999, Telia attempted a merger with Telenor of Norway, but this was not successful.

For description of the company's activities up until the merger, see separate archived report: [Telia AB \(historic\)](#).

3.2.2 Sonera Corporation

Formerly known as Telecom Finland, a partly state-owned telecommunications provider, Sonera Corporation was the largest telecommunications provider in all sectors. It had subsidiaries and associated companies in 14 countries and was an international player in mobile, data and media communications. Its key business areas were fixed voice and data services, and wireless voice and data services, with Internet applications spread across these infrastructures.

In 1990, the State authority Posts and Telecommunications became a business enterprise and the telecommunications business was Telecom Finland. Privatisation began in 1997 with a 22.2% sale by the Finnish Government of the newly named Sonera to private citizens and institutional investors from Finland and overseas. Progressive privatisation occurred until the merger with Telia.

For description of the company's activities up until the merger, see separate archived report: [Sonera Corporation \(historic\)](#).

4. OPERATIONS

Table 5 – Number of subscribers – 2001 - 2002

	Subscribers (millions)	
	2001	2002
Telia:		
• Sweden mobile	3.44	3.7
• Norway mobile	0.97	1.09
• Finland mobile	0.24	0.30
• Baltic area and Russia	2.58	4.78
• ADSL	0.19	0.34
• International cable	0.11	0.15
• Dial-up Internet	0.84	0.86
Sonera		
• GSM	2.42	2.49
• Fixed access lines	0.75	0.72
• ADSL	0.06	0.01
• Turkcel	n/a	15.7
• Megafon	0.9	3.0

(Source: Paul Budde Communication, based on company data)

4.1 SWEDEN

TeliaSonera provides a full-range service offering in Sweden and operates under the Telia brand. It is the largest supplier of fixed and mobile telephony and Internet services. Asymmetrical Digital Subscriber Line (ADSL) is the most popular broadband access form in Sweden.

In April 2003, TeliaSonera agreed to sell com hem to EQT Northern Europe. com hem is the largest cable television operator in Sweden. It provides pay television (including pay per view) and broadband internet access services.

4.2 FINLAND

In mobile communications, The company provides a full range of mobile services and operates under the Sonera brand. It is also one of the major providers of domestic local, long-distance and international fixed-line voice and data services in Finland. It provides local fixed-voice services, primarily in the more sparsely populated areas of eastern and northern Finland, as well as a range of voice and data services to large corporate customers and small and medium enterprises throughout Finland.

In May 2003, TeliaSonera reached agreement to sell Telia Mobile Finland to Finnet OY. This sale was required by the EU as a condition of the merger between Telia and Sonera.

4.3 NORWAY

In Norway, TeliaSonera operates under the NetCom brand, which is the second largest mobile operator in Norway.

4.4 DENMARK

TeliaSonera operates under the Telia brand in Denmark. Telia Network operations in Denmark are subject to a refocus program. The operations will be focused on telephony sales to businesses and consumers and wholesale network capacity to operators and service providers. In the fourth quarter of 2002, unprofitable products, such as ADSL, customer premises equipment and some data products, were discontinued or frozen. Frozen operations will not be expanded, but will continue to serve current customers.

4.5 BALTIC COUNTRIES

TeliaSonera's holding in the Baltic regions are:

- a 60% holding in the fixed-line operator AB Lietuvos Telekomas in Lithuania;
- a 55% interest in the mobile operator UAB Omnitel;
- a 60% direct and indirect interest in the Latvian mobile operator Latvijas Mobilais Telefons;
- a 49% interest in AS Eesti Telekom, a provider of fixed-line and mobile services in Estonia;
- a 49% holding in the Latvian fixed-line operator Lattelekom SIA.

4.6 EURASIAN SUBSIDIARIES

TeliaSonera has a 58.55% holding in Fintur Holdings B.V., which operates through majority-owned subsidiaries in Azerbaijan, Kazakhstan, Georgia and Moldova.

In August 2002, Sonera brought its holding to this level by acquiring an additional 23.24% of Fintur from the Çukurova Group. As part of the transaction, Fintur's loss-making technology and media businesses were sold to the Çukurova Group.

The total population of the four countries is approximately 31 million and the networks of the companies currently cover a population of about 22 million. Mobile penetration rates in each of these countries are estimated to be less than 10%. The Fintur-owned operations are the largest or second largest in their respective markets.

4.7 ASSOCIATED COMPANIES IN RUSSIA AND TURKEY

In Russia, TeliaSonera has a 43.8% holding in MegaFon, which is the only operator in Russia with licences spanning the whole country.

TeliaSonera also has a 37.1% holding in Turkcell, Turkey's major mobile operator.

4.8 INTERNATIONAL CARRIER

TeliaSonera International Carrier provides wholesale international IP, capacity and voice services to selected high volume destinations in Europe and across the Atlantic. Services are based on its fully-owned and controlled European and trans-Atlantic networks. As well as owning one of the largest network footprints in Europe, it also have peering points in the US. It is the largest carrier of IP traffic in the Nordic and Baltic Sea regions, and has extensive reach into Eastern Europe.

Following the merger, operations were concentrated on wholesale capacity sales, IP and voice over the profitable segments of the wholly-owned network in Europe and across the Atlantic Ocean. International Carrier will also continue to focus on transport of Internet traffic in the IP network through its peering points in Europe and the United States.

4.8.1 Post-merger restructuring

Restructuring during late 2002 and early 2003 involved:

- closing down operations in Asia;
- phasing out of sales of domestic voice through resellers in the UK;
- adapting co-location businesses to the new market conditions,
- closing several offices in Germany and Sweden;
- following the expiry of domestic capacity services in the US, dismantling of the associated transmission equipment;
- several market units and customer service functions in Germany and England were centralised to Sweden.

5. CONTACT DETAILS

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6. RELATED REPORTS

For information relating to:

- worldwide activities in the telecommunications industry, see [Global Overviews](#);
- the global telecommunications industry, see [Technologies, Terminology and Glossary](#);
- telecommunication companies in Europe, see [Companies in Europe](#);
- activities in Europe, see [Europe](#).

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